

AT SYSTEMATIZATION BERHAD
Company No. 200401006297 (644800-X)
(Incorporated in Malaysia)

Extract of Minutes of the Extraordinary General Meeting (“EGM”) of AT Systematization Berhad (“ATS” or the “Company”) in respect of key matters discussed at the EGM held at Level 4, Menara Lien Ho, No. 8 Persiaran Tropicana, Tropicana Golf and Country Resort, 47410 Petaling Jaya, Selangor, on Tuesday, 15 September 2020 at 11.00 am

- 1.1 The Secretary informed that the Board has received a letter dated 7 September 2020 from Minority Shareholder Watch Group (“MSWG”) and invited Mr Choong Lee Aun, the Managing Director to present the Company’s response to the queries from MSWG. The said questions from MSWG and the Company’s response were also projected on screen for ease of reading by all present.

Summary of queries from MSWG and the Company’s response

Q1. The Group intends to obtain the approvals from the various authorities/regulatory bodies by November 2020 and the production of the rubber gloves is expected to commence by the end of November 2020. (pages 5 and 6 of the Circular).

(a) Why does the Group need to obtain the approvals from the various authorities/regulatory bodies as PGSB is on existing glove manufacturing plant? The Company would have obtained the approvals from the various authorities/regulatory bodies prior to production of gloves

Pearl Glove Sdn Bhd (PGSB) is principally involved in the research and development, manufacturing, export and sale of work gloves (industrial gloves).

As part of the Group’s Proposed Diversification into the Gloves Business, the Group intends to install and commission up to 20 glove-dipping lines within 36 months to manufacture medical grade nitrile rubber gloves.

The license requirements by various authorities for work gloves as compared to medical gloves are different. For information, medical grade nitrile rubber gloves are subject to more stringent requirements and regulations and will require certifications / licenses such as FDA Certifications and CE Marking Certifications.

Since the outbreak of the COVID-19 pandemic, the demand for personal protective equipment to curb the pandemic has boosted the demand for medical gloves. The Group realised that it is important to expedite the process to penetrate the glove industry to capture the market share.

The process of acquiring PGSB requires a detailed due diligence review and it generally will take up few months to complete because the progress will depend on information gathering and findings on due diligence review.

PGSB Facility can only house up to 6 glove-dipping lines in addition to its existing 3 glove-dipping lines. In view of this, the Group has on 27 August 2020 announced to acquire two (2) adjoining parcels of leasehold industrial lands, together with industrial premises located at Chemor, Ipoh (“Chemor Property”) to build the medical glove-dipping line and facility. At the same time, the Group is applying the licenses required for the medical gloves pending completion of due diligence exercise to avoid missed opportunities.

The Group expects to be able to house a total of 18 new glove-dipping lines at the PGSB Facility and Chemor Property as follows:-

	Existing number of glove-dipping lines	Additional new glove-dipping lines⁽¹⁾ for the proposed Gloves Business	Total glove-dipping lines that the premise is able to accommodate
PGSB Facility	3	6	9
Chemor Property	-	12	12
Total	3	18	21

Note:-

(1) *The exact breakdown for the number of single former/double former glove-dipping line to be housed in which premises cannot be ascertained by the Group at this juncture as the Acquisition of PGSB and Acquisition of Chemor Property are pending completion.*

Subject to the completion of the Acquisition of PGSB and Acquisition of Chemor Property, the Group may identify other suitable locations/premises for the installation of all 20 new glove-dipping lines.

(b) When is the due diligence exercise on PGSB expected to be completed?

The Group and the vendors of PGSB mutually agreed to extend the period to fulfil the conditions precedent as stated in the share sale agreement for a period of 2 months from 27 July 2020 (i.e. by 27 September 2020) as the parties have yet to obtain/fulfil the said conditions precedent. The Group is in the midst of performing the necessary due diligence exercises on PGSB.

The Company will make the necessary announcements on further updates on the Acquisition of PGSB.

(c) What is the Group’s contingency plan if the due diligence report on PGSB is unsatisfactory?

As mentioned in Part 1(a), the Group has acquired the Chemor Property in August 2020, for a total cash consideration of RM10.3 million, upon the terms and conditions as stipulated in the SPA.

The Chemor Property is capable of housing up to 12 single or double former glove-dipping lines. If the acquisition of PGSB did not materialise, the Group still can install and commission the glove-dipping lines at the Chemor Property. Based on the agreed delivery schedule, the first single former glove-dipping line is expected to be delivered, installed and commissioned in November 2020. The production is expected to commence by end of Nov / early Dec 2020.

The Group has also identified Dr Tuan Noraihan Azila binti Tuan Rahim as one of the key personnel to lead the venture into the Gloves Business. Her profile is set out in Section 2.2 of the Circular. The Board is of the view that her job experience, academic background and technical knowledge in polymer composites and polymer engineering is expected to contribute greatly to the Group's venture into the Gloves Business, specifically in new product development, research and development and commercialisation.

Further, the board is of the view that there is sufficient pool of talent for the gloves manufacturing industry to carry out the proposed Gloves Business.

Q2. On the acquisition of PGSB:

(a) Why has the Group decided to acquire PGSB?

- Business location
PGSB is located at Sungai Petani, Kedah. Kedah is a Rubber City where we can tap into the abundant fresh quality natural rubber latex to produce rubber gloves.
- Experience and knowledge
PGSB has more than 10 years of experience and technical know-how in the gloves industry. The Group expects that the skills, expertise and experience of PGSB in the glove industry, its manufacturing facilities and existing operations will ease the Group's segue into the gloves industry.
- Manufacturing facilities
PGSB has gloves manufacturing facilities of approximately 79,000 square feet with 3 installed production lines capable of manufacturing work gloves. The manufacturing facilities is capable of housing another 6 glove-dipping lines which suits the Group's proposed venture into the gloves business.

(b) Is PGSB currently profitable or loss-making?

Based on the audited financial statement as at 31 December 2019, PGSB is having net loss of RM1.18 million.

(c) What is the valuation method used in the acquisition of PGSB's glove business?

The Purchase Consideration was arrived at on a willing-buyer willing-seller basis, after taking into consideration the following:-

- (i) the audited net assets of PGSB as at 31 December 2018 of approximately RM1.22 million;
- (ii) the outlook and prospects of the glove industry. Demand for medical gloves has reached unprecedented levels as the pandemic has spread globally. The use of gloves has also expanded beyond healthcare and frontline workers to

also include the general public especially those who are required to wear gloves at work.

In view of the acute surge in demand, the gloves market has turned into a seller's market where sellers of gloves have relatively higher negotiation power in determining pricing as well as allocating capacities; and

- (iii) the synergistic benefits to be derived from the acquisition of PGSB and the future plans of the Group to manufacture medical grade nitrile examination gloves. The Group expects that PGSB's technical know-how and its manufacturing facilities to ease the Group's segue into the gloves industry. As the demand for personal protection equipment surges during the pandemic, the acquisition of PGSB is expected to ease the Group's venture into the gloves industry and expedite the process to put on-stream the manufacturing facilities for medical gloves to capitalise and meet such demand.

(d) Do the vendors of PGSB provide a profit guarantee to the Company? If yes, what is the amount and for what period?

There is no profit guarantee provided by the vendors of PGSB.

Q3. PGSB has 9 glove-dipping lines with 3 single former glove-dipping lines used for the manufacturing of work gloves. (page 11 of Circular)

(a) What is PGSB's current glove production from the 6 glove-dipping lines? Please provide the breakdown by rubber and nitrile gloves by percentages?

For clarification, PGSB's existing manufacturing facilities have a gross build-up area of approximately 79,000 square feet which is capable of housing up to 9 glove-dipping lines. Currently, PGSB's existing manufacturing facilities house 3 single former glove dipping lines which are used for the manufacture of work gloves.

Going forward, the Group intends to install and commission up to 6 glove-dipping lines which are capable to produce natural rubber (NR) and Nitrile rubber (NBR) at PGSB's existing manufacturing facilities.

Depending on the demand of NR and/or NBR, the Group will be able to switch its production schedule and product mix (NR and NBR), in which the exact mix could not be determined at this juncture.

(b) What is the maximum glove production from the 9 glove-dipping lines?

If the Group successful acquired PGSB, and upon completion of the installation and commission of the additional 6 glove-dipping lines, the production capacity per annum is as follows:-

Type of dipping line	Number of lines	Total pieces per annum ('000)
Existing Single former work gloves dipping line	3	10,000
<u>To be installed and commissioned</u> Single former medical gloves dipping line	6	618,000
Total		628,000

- 1.2 Mr. Ho, a shareholder, enquired on the Company's plans to obtain raw materials, build up the human resources and secure the financial resources for the manufacturing of medical gloves.

Mr. Choong Lee Aun informed that AT Glove Engineering Sdn Bhd ("AGESB") will be focussing on producing nitrile gloves and he acknowledged that there may be a shortage of the raw material for nitrile gloves at the moment. However, through the network contacts of the Directors, AGESB has been able to obtain the support of two suppliers in China to support AGESB's requirement for the raw material. The new plant manager that AGESB has employed has also introduced a supplier from India to supply the raw material for nitrile gloves.

In terms of human resource requirements, AGESB has secured the services of Dr. Tuan Noraihan Azila binti Tuan Rahim who holds a PhD in Polymer Composite to head the technical area and research and development. AGESB has also identified an expatriate who has experience in running glove manufacturing factories in Sri Lanka and Thailand to head the factory operations. At the moment, AGESB is actively recruiting for production workers and other staff for the new factory operations.

Mr. Kevin Yong, the Chief Financial Officer of ATS, informed the meeting that the Company is planning to raise between RM44.8 million (under the Minimum Scenario) and RM63.8 million (under the Maximum Scenario) through the Private Placement exercise, for which the Company is seeking the shareholders' approval today, to fund the Glove Business. Out of the funds raised, between RM41.3 million to RM57.4 million is expected to be utilised as capital expenditure for the Glove Business.

- 1.3 En. Norhisam, the representative from MSWG, enquired whether AGESB has completed the acquisition of the property located at Chemor, Perak ("Acquisition of Chemor Property"). Mr. Choong Lee Aun informed that the Sale and Purchase Agreement for the Acquisition of Chemor Property has been signed and AGESB has paid an initial sum for the said property. The key matter to note of the Acquisition of Chemor Property is that the said property is next to the factory of Ripcol Engineering Sdn Bhd ("RESB") which has been engaged to design, fabricate, install, test and commission 6 production lines for AGESB. The proximity of the said property means that the production lines are being fabricated and installed by a supplier just next door thus speeding up the installation of the production lines significantly.

- 1.4 En. Norhisam enquired on the gap in valuation between the proposed price of RM22 million for the proposed acquisition of Pearl Glove (Malaysia) Sdn Bhd (“PGSB”) (“Acquisition of PGSB”) and the performance of PGSB which is making a loss.

Mr. Choong Lee Aun noted that the due diligence for the Acquisition of PGSB is still on-going and the Company is waiting for the due diligence report. A decision to proceed with the Acquisition of PGSB is still pending depending on the results of the due diligence.

Mr. Mak Siew Wei, Executive Director of ATS, added that at the point of the proposal to acquire PGSB, the Company was aiming to acquire the know-how on glove manufacturing and also the available space to put up 6 forming lines for medical glove manufacturing in addition to the existing lines for work gloves at PGSB. The difference between acquiring PGSB, at a premium, as opposed to building up a new facility in Chemor is that PGSB’s factory already has the water treatment plant, power plant and other facilities required for a glove manufacturing factory in place whereas we will have to build all the facilities in addition to the production lines at a new factory. As to the reason for the existing owners of PGSB not venturing into medical gloves themselves, Mr. Mak noted that PGSB did not have the substantial funds required.

- 1.5 En. Norhisam enquired on the competition for the supply of medical gloves from other players in and outside the country.

Mr. Choong Lee Aun noted that the market is huge and currently there are purchasers willing to book a factory’s output for a whole line. Contract purchasing can currently be one year ahead i.e. delivery in one year’s time. Mr. Mak added that currently the terms for purchase is cash up front. We are aiming to allocate our output for 80% contract sale and 20% spot sale (which commands a better price). Another advantage is that purchasers trust the quality of “Made in Malaysia” gloves as opposed to those made in some other countries. In reply to another shareholder who asked whether AGESB will be an OEM manufacturer or market the gloves under its own brand, Mr. Mak informed that we shall be marketing the gloves under our own AT brand. In fact, we have already designed the packaging for the gloves.

As to the question of when AGESB expects to be profitable, Mr. Choong Lee Aun noted that although we aim to commence production for the first line by end November or early December, we have to be in full production before we can achieve profitability and if all goes well, it will take two to three quarters after first production to achieve that.

- 1.6 Another shareholder noted that AGESB appeared to rely substantially on RESB to set up the glove manufacturing line. He suggested that the Company could consider entering into joint venture with small glove manufacturing players to go into the glove business. He also advised that the Company should carefully conduct the due diligence on PGSB.

Mr. Choong Lee Aun said that the Company will definitely look carefully at the result of the due diligence review before coming to a conclusion on the Acquisition of PGSB.

As for the reliance on RESB, Mr. Choong informed that AGESB engaged RESB to set up the glove manufacturing lines due to RESB’s experience in the field and because AGESB does not have the expertise to set up the lines on its own. In terms of the formulation and quality of the gloves, AGESB does not depend on other parties as it has its own chemist, Dr. Tuan Noraihan Azila binti Tuan Rahim. In fact, AGESB has already produced its first glove based on its own formulation

for testing. AGESB has also identified a person with experience in running glove manufacturing factories to head its glove factory operations. In reply to another question from the shareholder, Mr. Choong clarified that AGESB will be applying for CE certification first for its gloves which is expected to be obtained within six months. With the CE certification, it will be able to sell its gloves in overseas markets except for the United States ("US") where it will require FDA approval which will take longer. He noted that even without the US, the market for gloves is huge.
